

VZCZCXRO2095  
OO RUEHPA  
DE RUEHOS #0645/01 2671632  
ZNY CCCCC ZZH  
O 241632Z SEP 07  
FM AMCONSUL LAGOS  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9433  
RUEHZK/ECOWAS COLLECTIVE PRIORITY  
RUEHUJA/AMEMBASSY ABUJA PRIORITY 9205  
INFO RUFOADA/JAC MOLESWORTH AFB UK  
RUEKJCS/SECDEF WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAIIA/CIA WASHINGTON DC  
RHEFDIA/DIA WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000645

SIPDIS

SIPDIS

DOE FOR GPERSON, CGAY  
TREASURY FOR ASAEED, SRENENDER, DFIELD5  
COMMERCE FOR KBURRESS  
STATE PASS USTR FOR ASST USTR FLISER  
STATE PASS TRANSPORTATION FOR MARAD  
STATE PASS OPIC FOR ZHAN AND MSTUCKART  
STATE PASS TDA FOR EEBONG, PDAVIS  
STATE PASS EXIM FOR JRICHTER  
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: DECL: 10/20/2016

TAGS: [EPET](#) [ENERG](#) [PGOV](#) [NI](#)

SUBJECT: CHEVRON CONTEMPLATES BYPASSING ELP TO LINK TO WEST  
AFRICA GAS PIPELINE

LAGOS 00000645 001.2 OF 002

Classified By: Ambassador Donald McConnell, Consul General a.i.; Reason  
s 1.4 (B,D)

¶1. (C) Summary: The West African Gas Pipeline (WAGP), originally scheduled for completion in December 2006, has stalled repeatedly. Vandalism to the Escravos to Lagos Pipeline (ELP) is slowing the flow of gas to existing facilities and threatens Nigeria's ability to supply gas to the WAGP. Chevron is considering laying a second pipeline offshore to bypass the ELP and connect directly to the WAGP. The Nigerian government has persuaded Chevron, ExxonMobil, and Shell to build power plants; Chevron's is due to be completed in two years. End Summary

¶2. (SBU) According to Charles Alenji, Chevron Nigeria Limited's General Manager of Gas, Marketing and Commercialization, and Femi Odumabo, Chevron's General Manager of Policy, Government and Public Affairs, the offshore segment of the WAGP is 99 percent and the onshore segment 47% complete. Connections between the onshore and offshore segments are being made in Niger, Benin, Togo and Ghana.

¶3. (SBU) Although the original plan was to build the entire WAGP offshore, the Nigerian Gas Company (NGC) opted to use the ELP. This onshore line has been crippled by vandalism since 2003 when a community, mistakenly thinking the gas pipeline was an oil pipeline, hacked into the line to illegally bunker oil. Although they got no oil, community members realized the act drew the attention of the companies and the Government of Nigeria (GON). In February 2006, the pipeline was vandalized between the Warri gas treatment plant and the Escravos Beach node; the pipeline remained down for over a year. In the past six years, the pipeline has been down approximately 30% of the time, Chevron officials said.

¶4. (C) To avoid similar problems with the WAGP, Chevron is

considering laying a second pipeline offshore. Chevron,s goal is to monetize the estimated 500 million standard cubic feet of gas per day (Mmcfd) flared in the Escravos Eastern Zone. The Egbin power plant, located in a suburb of Lagos, relies on gas from the ELP. Approximately 180 Mmcfd would be delivered to the plant daily if not for sabotage to the ELP. The completed WAGP will have the capacity to carry 500 Mmcfd of compressed gas. Until completion of the Badagry/Lagos Beach compression plant, the WAGP will carry 30-60 Mmcfd of non-compressed or free gas. Upon completion of the compression plant, planned for December 2007, volume in the WAGP will increase to 200 Mmcfd, or just under half its capacity. Volume currently contracted for sale to Benin, Togo and Ghana is 140 Mmcfd, and WAPCO has already received requests for an additional 200 Mmcfd. Most industry contacts do not believe the WAGP will be operational in any capacity before May 2008 at the earliest.

#### IOCs Cave, Agree to Build Power Plants

-----

15. (SBU) Since 2006, the Government of Nigeria (GON) has asked international oil companies (IOCs) to build power plants; Chevron, Shell, ExxonMobil and Total have agreed to build the plants as economic development projects. Chevron expects its plant to be completed within two years, with the first phase generating approximately 450-500 megawatts (MW) of power and the second phase approximately 780-800 MW. Many issues regarding the plant remain to be resolved, Chevron officials said.

16. (C) Due to the GON,s poor payment history, Chevron is requiring as a pre-condition for construction the establishment of a payment guarantee or securitization system. According to current plans, the GON will set up two accounts and establish a letter of credit (LOC). The

LAGOS 00000645 002.2 OF 002

operating account will be funded with proceeds from sales of electricity. Investors will have priority for payment from the account. When funds in the operating account are depleted, the second account, with a balance equal to three months of payments, will serve as an escrow account. Draws on the LOC will be undertaken as a last resort. As a final guarantee, in the event of non-payment the companies will either lift crude or take an offset against taxes owed to the GON. According to Chevron, power plant projects generally have a low rate of return, so while the company does not see this venture as commercially attractive, it does believe it is necessary in order to protect the company,s base business and future projects.

17. (SBU) Despite a reform that promised 10,000 MW of electricity by 2007 and cost 574 billion naira over the past seven years, peak power generation in 2005 was only 3,500 MW and dropped below 2,000 MW early in 2007. The Egbin power plant, the largest power generation plant in the country, produces 1,300 MW of electricity at full capacity, and with the Afam power plant in Rivers State produces 75% of Nigeria,s power supply. The February 2006 attack on the ELP caused the Egbin power plant to drop to a quarter of its installed generating capacity and affected Afam as well. The impact was felt in individual homes, small businesses and large corporations alike. The National Gas Company (NGC), a supplier of gas to the plant and to other industries serviced by the ELP, lost an estimated 28 billion naira for the year the pipeline remained non-functional, the Chevron executives said.

18. (U) This cable was written by Consular Officer Alice Holder.  
MCCONNELL